

CITY OF NORWAY
AUDITED FINANCIAL STATEMENTS
NORWAY, MICHIGAN

Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Norway	County Dickinson
Audit Date 6/30/04	Opinion Date 10/21/04	Date Accountant Report Submitted to State: 11/23/04	

We have audited the financial statements of this local unit of government and rendered an opinion on the financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

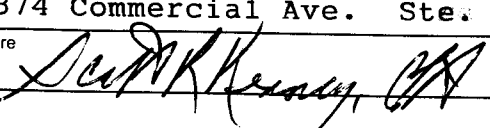
Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Ste. 1		City Crystal Falls	State MI
Accountant Signature 		ZIP 49920	Date 11/23/04

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SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, Michigan 49870

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Norway, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

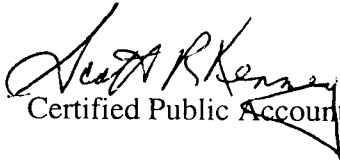
As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Norway, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

October 21, 2004

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 6.2% from a year ago - decreasing from \$18.170 million to \$17.051 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$1.4 million during the year (13.5% decrease). This is attributed to an increase in retiree health benefit costs, pension contributions, two major street construction projects, and a decrease in State Revenue Sharing Payments. The business-type activities experienced a \$307,000 increase in net assets, primarily as a result of increased charges in the various utilities. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 1,875	\$ 2,356	\$ 518	\$ 658	\$ 2,393	\$ 3,014
Noncurrent Assets	<u>14,720</u>	<u>15,262</u>	<u>14,219</u>	<u>13,738</u>	<u>28,939</u>	<u>29,000</u>
Total Assets	\$ 16,595	\$ 17,618	\$ 14,737	\$ 14,396	\$ 31,332	\$ 32,014
Long-Term Debt Outstanding	\$ 7,140	\$ 6,785	\$ 5,978	\$ 5,993	\$ 13,118	\$ 12,778
Other Liabilities	<u>346</u>	<u>298</u>	<u>817</u>	<u>768</u>	<u>1,163</u>	<u>1,066</u>
Total Liabilities	<u>\$ 7,486</u>	<u>\$ 7,083</u>	<u>\$ 6,795</u>	<u>\$ 6,761</u>	<u>\$ 14,281</u>	<u>\$ 13,844</u>
Net Assets						
Invested in Capital Assets-Net of Debt	\$ 11,396	\$ 11,938	\$ 7,430	\$ 7,178	\$ 18,826	\$ 19,116
Restricted	38	36	216	360	254	396
Unrestricted	<u>(2,325)</u>	<u>(1,439)</u>	<u>296</u>	<u>97</u>	<u>(2,029)</u>	<u>(1,342)</u>
Total Net Assets	\$ 9,109	\$ 10,535	\$ 7,942	\$ 7,635	\$ 17,051	\$ 18,170

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Unrestricted net assets (deficit)—the part of net assets that can be used to finance day to day operations, decreased by \$886,000 for the governmental activities. This represents a decrease of approximately 61.6%. The current level of unrestricted net assets for our governmental activities stands in a deficit position at \$2.325 million.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for Services	\$ 389		\$ 4,454		\$ 4,843	
Operating Grants and Contributions	335		0		335	
Capital Grants and Contributions	243		0		243	
General Revenues						
Property Taxes	\$ 771		\$ 0		\$ 771	
State-Shared Revenues	332	N	0	N	332	N
Unrestricted Investment Earnings	38	O	5	O	43	O
Fines and forfeitures	7	T	0	T	7	T
Sale of land	134		0		134	
Transfers and Other Revenue	<u>449</u>		<u>(297)</u>		<u>152</u>	
Total Revenues	\$ 2,698		\$ 4,162		\$ 6,860	
Program Expenses		A		A		A
General Government	\$ 1,010	V	\$ 0	V	\$ 1,010	V
Public Safety	674	A	0	A	674	A
Public Works	2,240	I	0	I	2,240	I
Recreation & Culture	24	L	0	L	24	L
Interest on Long-Term Debt	176	A	0	A	176	A
Oak Crest Golf Course	0	B	422	B	422	B
Public Utilities	<u>0</u>	L	<u>3,433</u>	L	<u>3,433</u>	L
		E		E		E
Total Expenses	\$ 4,124		\$ 3,855		\$ 7,979	
Change in Net Assets	\$(1,426)		\$ 307		\$(1,119)	

The City's net assets remain at a very low level. This can be attributed to aggressive spending in prior years using primarily debt financing without increasing revenues. Some new businesses have located in the City and construction continued at a steady pace this past year.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Governmental Activities

The City's total governmental revenues increased by approximately \$354,000 due to a federal grant for road construction of \$244,000 and the sale of property totaling \$134,000.

Cash expenditures increased by nearly \$301,000 during the year. This was primarily due to the street construction projects undertaken during the year.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television and internet services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City owns and operates Oak Crest Golf Course in conjunction with Oak Crest Golf Club, Inc. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues and expenses increase primarily due to a continued increase in the number of internet customers. The Electric Fund saw its revenues increase due to a rate increase and an insurance claim on a power generation unit. Expenditures in the Electric Fund increased to replace the damaged generator and to purchase increasing levels of power. The Golf Fund continues to struggle with revenue sharing formulas having been changed repeatedly and increasing debt service payments resulting in the refinancing of existing debt to level cash flows. The Water Fund revenues increased due to rate adjustments. The expenses in the Water Fund decreased due to the cost controls that have been implemented and a lower than normal level of repairs to the water system. The Sewer Fund revenues decreased slightly as did expenses during the year.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2003-2004 include the General Fund, Major Street Fund, Downtown Development Authority, Capital Projects and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. The most significant revenue changes were in State Shared Revenues which was decreased by \$14,000 due to a drop in payments from the State of Michigan and Interest which was decreased because of continued decline in interest rates and the consumption of cash to pay for ongoing commitments. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2004, the City had more than \$28,128,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings, community television/internet system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2004 fiscal year exceeded \$8,608,000. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2004-2005 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A and a precarious cash position, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 1,061,789	\$ 4,817	\$ 1,066,606	\$ 57,582
Investments	216,469	0	216,469	0
Receivables - net	174,149	389,173	563,322	100
Inventory	0	96,119	96,119	0
Prepaid expenses	24,917	27,857	52,774	85,032
Other	13,362	0	13,362	0
Internal balances	384,465	0	384,465	0
TOTAL CURRENT ASSETS	\$ 1,875,151	\$ 517,966	\$ 2,393,117	\$ 142,714
RESTRICTED ASSETS - Cash and equivalents				
	\$ 0	\$ 625,903	\$ 625,903	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 14,719,711	\$ 13,408,071	\$ 28,127,782	\$ 0
Other	0	184,837	184,837	0
TOTAL NON-CURRENT ASSETS	\$ 14,719,711	\$ 13,592,908	\$ 28,312,619	\$ 0
TOTAL ASSETS	\$ 16,594,862	\$ 14,736,777	\$ 31,331,639	\$ 142,714
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 157,164	\$ 108,380	\$ 265,544	\$ 17,592
Accrued and other liabilities	58,248	340,942	399,190	37,626
Interprogram payables	0	368,257	368,257	0
Current part of non-current liabilities	170,938	254,280	425,218	0
TOTAL CURRENT LIABILITIES	\$ 386,350	\$ 1,071,859	\$ 1,458,209	\$ 55,218
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
	\$ 0	\$ 410,671	\$ 410,671	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 130,235	\$ 0	\$ 130,235	\$ 0
Bonds payable	3,153,023	0	3,153,023	0
Revenue bonds payable	0	5,312,809	5,312,809	0
Unfunded accrued actuarial pension liability	3,815,970	0	3,815,970	0
TOTAL NON-CURRENT LIABILITIES	\$ 7,099,228	\$ 5,312,809	\$ 12,412,037	\$ 0
TOTAL LIABILITIES	\$ 7,485,578	\$ 6,795,339	\$ 14,280,917	\$ 55,218
NET ASSETS				
Invested in capital assets, net of related debt	\$ 11,395,750	\$ 7,430,311	\$ 18,826,061	\$ 0
Restricted for				
Prepaid expenses	24,917	0	24,917	
Bond discount	13,362	0	13,362	
Repair and reconstruction	0	215,232	215,232	0
Unrestricted	(2,324,745)	295,895	(2,028,850)	87,496
TOTAL NET ASSETS	\$ 9,109,284	\$ 7,941,438	\$ 17,050,722	\$ 87,496

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Governmental Activities				
General government	\$ 1,009,879	\$ 0	\$ 0	\$ 0
Public safety	674,407	0	0	0
Public works	2,239,544	388,876	334,994	243,750
Recreation and culture	23,756	0	0	0
Interest and fees on long-term debt	176,119	0	0	0
TOTAL GOVERNMENTAL ACTIVITIES	\$ 4,123,705	\$ 388,876	\$ 334,994	\$ 243,750
Business-Type Activities				
Television	\$ 706,349	\$ 679,867	\$ 0	\$ 0
Electric	1,771,700	2,279,824		
Oak Crest Golf Course	421,950	362,549		
Water	561,759	631,206		
Sewer	393,762	500,193	0	0
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 3,855,520	\$ 4,453,639	\$ 0	\$ 0
Component Unit - Oak Crest Golf Club, Inc.	\$ 432,005	\$ 362,321	\$ 0	\$ 0

GENERAL REVENUES

Property taxes
State shared revenues and grants
Unrestricted investments earnings
Fines and forfeitures
Other
SPECIAL ITEM-Gain (loss) on sale of land
TRANSFERS

TOTAL GENERAL REVENUES AND SPECIAL ITEMS

CHANGE IN NET ASSETS

Net assets - beginning

NET ASSETS - ENDING

The Notes to Financial Statements are an integral part of this statement.

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
\$	(1,009,879)		\$ (1,009,879)	
	(674,407)		(674,407)	
	(1,271,924)		(1,271,924)	
	(23,756)		(23,756)	
	<u>(176,119)</u>		<u>(176,119)</u>	
\$	(3,156,085)		\$ (3,156,085)	
		\$ (26,482)	\$ (26,482)	
		508,124	508,124	
		(59,401)	(59,401)	
		69,447	69,447	
		<u>106,431</u>	<u>106,431</u>	
		\$ 598,119	\$ 598,119	
				\$ (69,684)
\$	770,856	\$ 0	\$ 770,856	\$ 0
	331,609	0	331,609	0
	38,029	5,169	43,198	542
	6,604	0	6,604	0
	151,836	0	151,836	43,188
	134,275	0	134,275	0
	<u>296,794</u>	<u>(296,794)</u>	<u>0</u>	<u>0</u>
\$	<u>1,730,003</u>	\$ <u>(291,625)</u>	\$ <u>1,438,378</u>	\$ <u>43,730</u>
\$	(1,426,082)	\$ 306,494	\$ (1,119,588)	\$ (25,954)
	<u>2,155,630</u>	<u>7,634,944</u>	<u>9,790,574</u>	<u>113,450</u>
\$	<u><u>729,548</u></u>	\$ <u><u>7,941,438</u></u>	\$ <u><u>8,670,986</u></u>	\$ <u><u>87,496</u></u>

CITY OF NORWAY
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2004

	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>
ASSETS		
Cash and equivalents	\$ 144,020	\$ 619
Investments	174,916	0
Accounts receivable	20,807	0
Due from other funds	368,423	0
Due from other governmental units	106,251	45,883
Prepaid expenses	24,917	0
Bond discount	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>839,334</u>	\$ <u>46,502</u>
LIABILITIES		
Accounts payable	\$ 32,275	\$ 3,997
Accrued payroll expense	37,263	1,285
Accrued taxes and withholdings	2,710	98
Accrued benefits	8,297	0
Accrued interest	0	0
Other liabilities	<u>1,049</u>	<u>0</u>
TOTAL LIABILITIES	\$ 81,594	\$ 5,380
FUND BALANCES		
Reserved for		
Prepaid expenses	\$ 24,917	\$ 0
Bond discount	0	0
Unreserved	<u>732,823</u>	<u>41,122</u>
TOTAL FUND EQUITY	\$ <u>757,740</u>	\$ <u>41,122</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>839,334</u>	\$ <u>46,502</u>

The Notes to Financial Statements are an integral part of this statement.

<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 255,773	\$ 510,316	\$ 151,061	\$ 1,061,789
0	0	41,553	216,469
0	0	1,208	22,015
0	0	16,042	384,465
0	0	0	152,134
0	0	0	24,917
<u>13,362</u>	<u>0</u>	<u>0</u>	<u>13,362</u>
<u>\$ 269,135</u>	<u>\$ 510,316</u>	<u>\$ 209,864</u>	<u>\$ 1,875,151</u>
\$ 4,278	\$ 110,209	\$ 6,405	\$ 157,164
0	0	2,445	40,993
0	0	188	2,996
0	0	0	8,297
4,913	0	0	4,913
<u>0</u>	<u>0</u>	<u>0</u>	<u>1,049</u>
\$ 9,191	\$ 110,209	\$ 9,038	\$ 215,412
\$ 0	\$ 0	\$ 0	\$ 24,917
13,362	0	0	13,362
<u>246,582</u>	<u>400,107</u>	<u>200,826</u>	<u>1,621,460</u>
\$ 259,944	\$ 400,107	\$ 200,826	\$ 1,659,739
\$ 269,135	\$ 510,316	\$ 209,864	\$ 1,875,151

CITY OF NORWAY
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balance - total governmental funds	\$ 1,659,739
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	14,719,711
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(3,323,961)
Accumulated employee vacation and personal pay not used in current period	(130,235)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(3,815,970)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u>9,109,284</u>

CITY OF NORWAY
 ALL GOVERNMENTAL FUND TYPES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 Year ended June 30, 2004

	<u>GENERAL</u>	<u>MAJOR STREET</u>
REVENUES		
General property taxes	\$ 593,799	\$ 0
Federal grants	0	243,750
State shared revenues and grants	331,609	236,196
Charges for services	388,876	0
Licenses and permits	267	0
Fines and forfeitures	6,604	0
Interest and rentals	21,892	1,528
Other	<u>4,541</u>	<u>0</u>
TOTAL REVENUES	\$ 1,347,588	\$ 481,474
EXPENDITURES		
General government	\$ 569,742	\$ 0
Public safety	613,169	0
Public works	484,266	944,496
Recreation	23,756	0
Debt service	0	0
Capital outlay	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	\$ 1,690,933	\$ 944,496
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (343,345)	\$ (463,022)
OTHER FINANCING SOURCES (USES)		
Transfer from other funds	\$ 333,044	\$ 148,119
Transfer to other funds	<u>(123,391)</u>	<u>0</u>
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ (133,692)	\$ (314,903)
Fund balance - beginning	<u>891,432</u>	<u>356,025</u>
FUND BALANCE - ENDING	\$ <u>757,740</u>	\$ <u>41,122</u>

Notes to Financial Statements are an integral part of this statement.

<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 177,057	\$ 0	\$ 0	\$ 770,856
0	0	0	243,750
0	0	98,798	666,603
0	0	0	388,876
0	0	0	267
0	0	0	6,604
3,093	9,862	1,654	38,029
<u>0</u>	<u>153,529</u>	<u>127,774</u>	<u>285,844</u>
\$ 180,150	\$ 163,391	\$ 228,226	\$ 2,400,829
\$ 2,939	\$ 0	\$ 0	\$ 572,681
0	0	0	613,169
0	0	162,386	1,591,148
0	0	0	23,756
127,780	0	208,828	336,608
<u>0</u>	<u>34,503</u>	<u>21,649</u>	<u>56,152</u>
\$ <u>130,719</u>	\$ <u>34,503</u>	\$ <u>392,863</u>	\$ <u>3,193,514</u>
\$ 49,431	\$ 128,888	\$ (164,637)	\$ (792,685)
\$ 0	\$ 8,750	\$ 160,022	\$ 649,935
<u>(45,000)</u>	<u>(184,750)</u>	<u>0</u>	<u>(353,141)</u>
\$ 4,431	\$ (47,112)	\$ (4,615)	\$ (495,891)
<u>255,513</u>	<u>447,219</u>	<u>205,441</u>	<u>2,155,630</u>
\$ <u><u>259,944</u></u>	\$ <u><u>400,107</u></u>	\$ <u><u>200,826</u></u>	\$ <u><u>1,659,739</u></u>

CITY OF NORWAY
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Net change in fund balance - total governmental funds	\$ (495,891)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	(699,738)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	160,489
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(35,544)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(355,398)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(1,426,082)</u></u>

CITY OF NORWAY
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 June 30, 2004

	TELEVISION UTILITY	ELECTRIC UTILITY
ASSETS		
Current Assets:		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable	64,088	218,672
Due from other funds	0	0
Due from other governmental units	0	0
Inventory	0	61,741
Prepaid expenses	<u>2,634</u>	<u>15,169</u>
TOTAL CURRENT ASSETS	\$ 66,722	\$ 295,582
Restricted Assets	\$ 0	\$ 230,500
Property, Plant and Equipment:		
Utility plant and equipment	\$ 957,117	\$ 11,310,117
Less accumulated depreciation	<u>(636,253)</u>	<u>(4,737,862)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 320,864	\$ 6,572,255
Other Assets	\$ <u>0</u>	\$ <u>180,389</u>
TOTAL ASSETS	\$ <u><u>387,586</u></u>	\$ <u><u>7,278,726</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 54,154	\$ 30,837
Salaries and wages payable	4,285	20,569
Accrued taxes and withholdings	328	9,108
Accrued interest	0	34,314
Accrued benefits	42,650	59,556
Capital lease	0	0
Due to other funds	29,652	193,368
Due to other governmental units	0	0
Security deposits	0	38,674
Deferred revenue	396	0
Current portion of long term liabilities	<u>0</u>	<u>175,000</u>
TOTAL CURRENT LIABILITIES	\$ 131,465	\$ 561,426
Long Term Liabilities	\$ <u>0</u>	\$ <u>2,130,000</u>
TOTAL LIABILITIES	\$ 131,465	\$ 2,691,426
NET ASSETS		
Invested in capital assets - net of related debt	\$ 320,864	\$ 4,267,255
Restricted for debt service	0	230,500
Restricted for repairs and reconstruction	0	0
Unrestricted	<u>(64,743)</u>	<u>89,545</u>
TOTAL NET ASSETS	\$ <u><u>256,121</u></u>	\$ <u><u>4,587,300</u></u>

The Notes to Financial Statements are an integral part of this statement.

<u>OAK CREST GOLF COURSE</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
\$ 300	\$ 4,517	\$ 0	\$ 4,817
531	59,861	46,021	389,173
0	0	0	0
0	0	0	0
0	28,773	5,605	96,119
<u>2,397</u>	<u>3,727</u>	<u>3,930</u>	<u>27,857</u>
\$ 3,228	\$ 96,878	\$ 55,556	\$ 517,966
\$ 0	\$ 379,668	\$ 15,735	\$ 625,903
\$ 2,027,944	\$ 6,014,498	\$ 2,017,306	\$ 22,326,982
<u>(1,139,039)</u>	<u>(1,650,402)</u>	<u>(755,355)</u>	<u>(8,918,911)</u>
\$ 888,905	\$ 4,364,096	\$ 1,261,951	\$ 13,408,071
\$ <u>0</u>	\$ <u>4,448</u>	\$ <u>0</u>	\$ <u>184,837</u>
\$ <u>892,133</u>	\$ <u>4,845,090</u>	\$ <u>1,333,242</u>	\$ <u>14,736,777</u>
\$ 12,147	\$ 2,935	\$ 8,307	\$ 108,380
10,890	5,725	7,557	49,026
833	441	578	11,288
0	28,294	0	62,608
38,860	13,385	24,499	178,950
0	0	0	0
25,308	0	119,929	368,257
0	0	0	0
0	0	0	38,674
0	0	0	396
<u>0</u>	<u>67,000</u>	<u>12,280</u>	<u>254,280</u>
\$ 88,038	\$ 117,780	\$ 173,150	\$ 1,071,859
\$ <u>0</u>	\$ <u>3,397,000</u>	\$ <u>196,480</u>	\$ <u>5,723,480</u>
\$ 88,038	\$ 3,514,780	\$ 369,630	\$ 6,795,339
\$ 888,905	\$ 900,096	\$ 1,053,191	\$ 7,430,311
0	164,436	15,735	410,671
0	215,232	0	215,232
<u>(84,810)</u>	<u>50,546</u>	<u>(105,314)</u>	<u>(114,776)</u>
\$ <u>804,095</u>	\$ <u>1,330,310</u>	\$ <u>963,612</u>	\$ <u>7,941,438</u>

CITY OF NORWAY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended June 30, 2004

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>
OPERATING REVENUES		
User charges	\$ 678,771	\$ 2,136,423
Reimbursements	0	143,401
Other	<u>1,096</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 679,867	\$ 2,279,824
OPERATING EXPENSES		
Generation, transmission, distribution and maintenance	\$ 592,041	\$ 1,322,869
Depreciation	<u>114,308</u>	<u>303,694</u>
TOTAL OPERATING EXPENSES	\$ <u>706,349</u>	\$ <u>1,626,563</u>
OPERATING INCOME (LOSS)	\$ (26,482)	\$ 653,261
NON-OPERATING GAINS (LOSSES)		
Interest	\$ 0	\$ 2,392
Bond interest and fee payments	0	(123,219)
Bond discount amortization	0	(21,918)
NON-OPERATING TRANSFERS		
From other funds	\$ 0	\$ 0
To other funds	<u>(40,158)</u>	<u>(103,858)</u>
NET INCOME (LOSS)	\$ (66,640)	\$ 406,658
Net assets - beginning	<u>322,761</u>	<u>4,180,642</u>
NET ASSETS - ENDING	<u>\$ 256,121</u>	<u>\$ 4,587,300</u>

Notes to Financial Statements are an integral part of this statement.

<u>OAK CREST GOLF COURSE</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
\$ 362,549	\$ 598,206	\$ 500,193	\$ 4,276,142
0	0	0	143,401
<u>0</u>	<u>33,000</u>	<u>0</u>	<u>34,096</u>
\$ 362,549	\$ 631,206	\$ 500,193	\$ 4,453,639
\$ 393,174	\$ 258,484	\$ 349,644	\$ 2,916,212
<u>28,776</u>	<u>137,201</u>	<u>32,989</u>	<u>616,968</u>
\$ <u>421,950</u>	\$ <u>395,685</u>	\$ <u>382,633</u>	\$ <u>3,533,180</u>
\$ (59,401)	\$ 235,521	\$ 117,560	\$ 920,459
\$ 2	\$ 2,775	\$ 0	\$ 5,169
0	(165,732)	(11,129)	(300,080)
0	(342)	0	(22,260)
\$ 0	\$ 20,000	\$ 0	\$ 20,000
<u>(7,524)</u>	<u>(111,649)</u>	<u>(53,605)</u>	<u>(316,794)</u>
\$ (66,923)	\$ (19,427)	\$ 52,826	\$ 306,494
<u>871,018</u>	<u>1,349,737</u>	<u>910,786</u>	<u>7,634,944</u>
\$ <u><u>804,095</u></u>	\$ <u><u>1,330,310</u></u>	\$ <u><u>963,612</u></u>	\$ <u><u>7,941,438</u></u>

CITY OF NORWAY
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 Year ended June 30, 2004

	TELEVISION UTILITY	ELECTRIC UTILITY
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 678,168	\$ 2,085,644
Insurance proceeds	0	143,401
Payments to suppliers	(390,790)	(717,391)
Payments to or on behalf of employees	<u>(164,086)</u>	<u>(736,672)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 123,292	\$ 774,982
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	(40,158)	(103,858)
Loans from (repaid to) other funds	<u>(55,183)</u>	<u>193,368</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (95,341)	\$ 89,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ 0	\$ (288,219)
Purchases of capital assets	(28,767)	(518,399)
Funding of restricted accounts	<u>0</u>	<u>(230,500)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (28,767)	\$ (1,037,118)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>0</u>	\$ <u>2,392</u>
NET INCREASE (DECREASE) IN CASH	\$ (816)	\$ (170,234)
Cash and equivalents - beginning	<u>816</u>	<u>170,234</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (26,482)	\$ 653,261
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	114,308	303,694
Change in Assets and Liabilities		
Receivables - net	(1,699)	(50,779)
Inventory	0	(61,741)
Prepaid expenses	(315)	136
Accounts payable	22,835	(56,776)
Accrued payroll expense	984	2,358
Accrued taxes and withholdings	75	3,567
Accrued interest	0	(2,780)
Accrued benefits	13,543	(14,789)
Customer deposits	0	(1,169)
Deferred revenue	<u>43</u>	<u>0</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>123,292</u></u>	\$ <u><u>774,982</u></u>

Notes to Financial Statements are an integral part of this statement.

OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL
\$ 367,877	\$ 629,924	\$ 508,764	\$ 4,270,377
0	0	0	143,401
(116,287)	(170,817)	(149,112)	(1,544,397)
<u>(282,098)</u>	<u>(167,914)</u>	<u>(200,114)</u>	<u>(1,550,884)</u>
\$ (30,508)	\$ 291,193	\$ 159,538	\$ 1,318,497
(7,524)	(91,649)	(53,605)	(296,794)
<u>25,308</u>	<u>0</u>	<u>(33,743)</u>	<u>129,750</u>
\$ 17,784	\$ (91,649)	\$ (87,348)	\$ (167,044)
\$ 0	\$ (224,732)	\$ (20,339)	\$ (533,290)
(14,221)	(23,582)	(51,851)	(636,820)
<u>0</u>	<u>(35,300)</u>	<u>0</u>	<u>(265,800)</u>
\$ (14,221)	\$ (283,614)	\$ (72,190)	\$ (1,435,910)
\$ <u>2</u>	\$ <u>2,775</u>	\$ <u>0</u>	\$ <u>5,169</u>
\$ (26,943)	\$ (81,295)	\$ 0	\$ (279,288)
<u>27,243</u>	<u>85,812</u>	<u>0</u>	<u>284,105</u>
\$ <u><u>300</u></u>	\$ <u><u>4,517</u></u>	\$ <u><u>0</u></u>	\$ <u><u>4,817</u></u>
\$ (59,401)	\$ 235,521	\$ 117,560	\$ 920,459
28,776	137,201	32,989	616,968
5,328	(1,282)	8,571	(39,861)
0	(28,773)	(5,605)	(96,119)
(1,110)	(1,012)	(956)	(3,257)
(26,206)	(40,827)	938	(100,036)
1,727	277	2,442	7,788
132	22	187	3,983
0	(484)	0	(3,264)
20,246	(9,450)	3,412	12,962
0	0	0	(1,169)
<u>0</u>	<u>0</u>	<u>0</u>	<u>43</u>
\$ <u><u>(30,508)</u></u>	\$ <u><u>291,193</u></u>	\$ <u><u>159,538</u></u>	\$ <u><u>1,318,497</u></u>

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

Cash and equivalents	\$ <u>2,118</u>
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LIABILITIES

Due to other funds	\$ 467
Due to other governmental units	<u>1,651</u>

TOTAL LIABILITIES	\$ <u>2,118</u>
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Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF CHANGES IN NET ASSETS
Year ended June 30, 2004

	BALANCE 30-Jun-03	ADDITIONS	DEDUCTIONS	BALANCE 30-Jun-04
ASSETS				
Cash and equivalents	\$ <u>0</u>	\$ <u>1,258,900</u>	\$ <u>1,256,782</u>	\$ <u>2,118</u>
 LIABILITIES				
Due to other funds	\$ 0	\$ 181,664	\$ 181,197	\$ 467
Due to other governmental units	<u>0</u>	<u>1,077,236</u>	<u>1,075,585</u>	<u>1,651</u>
TOTAL LIABILITIES	\$ <u>0</u>	\$ <u>1,258,900</u>	\$ <u>1,256,782</u>	\$ <u>2,118</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

Current Assets:

Cash and equivalents	\$ 57,582
Accounts receivable	100
Inventory	85,032
Prepaid expenses	<u>0</u>

TOTAL ASSETS \$ 142,714

LIABILITIES

Current Liabilities:

Accounts payable	\$ 17,592
Gift certificates payable	20,979
Accrued taxes and withholdings	10,163
Other accrued liabilities	<u>6,484</u>

TOTAL LIABILITIES \$ 55,218

FUND EQUITY

Net assets - unrestricted \$ 87,496

TOTAL LIABILITIES AND FUND EQUITY \$ 142,714

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

OPERATING REVENUES - User charges	\$	362,321
OPERATING EXPENSES - General operations and maintenance		<u>364,568</u>
OPERATING INCOME	\$	(2,247)
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$	542
Miscellaneous income		43,188
Transfer from other fund		20,000
Transfer to other fund		<u>(87,437)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$	(23,707)
NET INCOME	\$	(25,954)
Net assets - beginning		<u>113,450</u>
NET ASSETS - ENDING	\$	<u><u>87,496</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2004

OPERATING ACTIVITIES

Operating income (loss)	\$ (25,954)
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Change in assets and liabilities:

(Increase) decrease in accounts receivable	1,866
(Increase) decrease in inventory	(1,820)
(Increase) decrease in prepaid expenses	582
Increase (decrease) in accounts payable	2,206
Increase (decrease) in gift certificates payable	3,750
Increase (decrease) in accrued taxes and withholdings	319
Increase (decrease) in other accrued liabilities	<u>(335)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (19,386)
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Cash and equivalents - beginning	<u>76,968</u>
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CASH AND EQUIVALENTS - ENDING	<u><u>57,582</u></u>
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Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Norway (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

BLENDED COMPONENT UNITS

The Norway Building Authority was established to finance the renovation, construction and equipping of the clubhouse at the Oak Crest Golf Course. All of the activity of the fund which consists solely of the debt service payments are transferred to the Debt Service Fund from the Oak Crest Golf Course, Inc. who is primarily responsible for the debt service payments. As such, the receipts and payments are recorded in the Debt Service Fund.

The Norway Utility Authority was established as a joint venture with the Township of Norway to provide a financing for upgrades to the sewer system to the residents of the two jurisdictions. The City's portion of the debt is recorded on the records of the Sewer Fund and the Township payments are recorded as contributions and the debt services payments are recorded in their entirety within the fund.

Downtown Development Authority - The Downtown Development Authority is governed by a board which has been appointed by the City Council. For financial reporting purposes, the Downtown Development Authority is reported in a separate Special Revenue Fund.

Museum Fund - The Museum Fund is governed by a board that is appointed by the City Council. For financial reporting purposes, the Museum Fund is reported in a separate Special Revenue Fund.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Norway, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

OAK CREST GOLF CLUB, INC. - The Oak Crest Golf Club is governed by a separate commission that is elected by the membership. While the City Council sets membership fees and can limit membership totals, the Council does not approve budgets or expenses. Complete audited financial statements are available at the Oak Crest Golf Club in Norway, Michigan and the City Hall.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on July 1 are payable in one installment by August 15 without penalty. The City bills and collects its own property taxes and also taxes for Dickinson County, the local school district and the intermediate school district. Collections and remittances of county and school taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 14.8942 mills generating net tax collections of \$593,799 recorded in the general fund and \$177,057 in the Downtown Development Authority.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Downtown Development Authority accounts for the receipts and expenditures associated with improvements to the designated Tax Incremental Financing District.

The Capital Project Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the activities of the Oak Crest Golf Course.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Golf Course	15 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General-Mayor/Council/Elections	55,815	50,789	5,026	10
General-Refuse	217,484	215,162	2,322	1
General-Parks and Recreation	23,756	17,649	6,107	34
Major Streets-Route Maintenance	50,843	45,398	5,445	12
Major Streets-Winter Maintenance	79,698	68,900	10,798	16
Capital Projects-Transfers	184,750	15,000	169,750	1132
Local Streets - Construction	43,262	0	43,262	~
Local Streets/Route Maintenance	53,289	45,660	7,629	14
Local Streets/Winter Maintenance	44,140	42,295	1,845	4

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE B - ACCUMULATED FUND DEFICITS

The City has no accumulated fund balance/retained earnings deficits as of June 30, 2004.

NOTE C - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$1,068,724. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 219,459
Uninsured and collateralized	0
Uninsured, uncollateralized	<u>849,265</u>
 TOTAL BANK BALANCE	 \$ 1,068,724 <u>=====</u>

NOTE D - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in Certificates of Deposit, various short term notes and bonds and a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$174,916 as of the June 30, 2004, and expects to receive an ongoing return of 12% per annum.

NOTE E - PLANT AND EQUIPMENT

A summary of the proprietary fund type property, plant and equipment as of June 30, 2004 is as follows:

	<u>Television Fund</u>	<u>Electric Fund</u>	<u>Golf Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Balance, 7/1	\$ 928,350	\$10,791,720	\$ 2,003,898	\$5,990,916	\$ 1,965,455
Additions	<u>28,767</u>	<u>518,397</u>	<u>24,046</u>	<u>23,582</u>	<u>51,851</u>
Balance, 6/30	<u>\$ 957,117</u>	<u>\$11,310,717</u>	<u>\$ 2,027,944</u>	<u>\$6,014,498</u>	<u>\$ 2,017,306</u>
Accumulated Depreciation	<u>\$ 636,253</u>	<u>\$ 4,737,862</u>	<u>\$ 1,139,039</u>	<u>\$1,650,402</u>	<u>\$ 755,355</u>

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE F - PLANT AND EQUIPMENT (CONTINUED)

Depreciation of all fixed assets used is charged proportionally to contributed capital and to expense of operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of the assets vary from five (5) to fifty (50) years.

NOTE G - EMPLOYEE RETIREMENT

The City of Norway contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with full benefits.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.5% of final average compensation for their last three years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 7,602,104
Terminated employees not yet receiving benefits	24,593
Non-vested terminated employees	3,898
Current employees:	
Accumulated employee contributions including allocated investment income	752,038
Employer financed	<u>2,814,755</u>
Total Actuarial Liability	\$ 11,197,388
Net assets available for benefits, at actuarial value (Market Value is \$6,740,030)	<u>7,381,418</u>
Unfunded (overfunded) actuarial accrued liability	\$ 3,460,572

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE H - EMPLOYEE RETIREMENT (CONTINUED)

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	July 1, 2005
Annual required contributions (ARC)	\$ 310,968
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

NOTE I - COMPENSATED ABSENCES

The various contracts and agreements covering the City's personnel allow for vesting and/or accumulation of sick and vacation pay as follows:

Sick Leave - Earned at the rate of various days per year with an accumulation limit of 120 and a 35% vesting feature for AFSCME and AFL-CIO and a 40% vesting feature for IBEW - Supervisory and 150 days and a 35% vesting feature for IBEW - Electrical.

Vacation Leave (Administration) - unlimited accumulation of unused days with 100% vesting.

Those amounts required to be accrued have been recorded in the various funds as follows:

	<u>Amount</u>
General Fund (current)	\$ 8,787
Long Term Debt Group (General Fund)	130,235
Oak Crest Golf Course	38,861
Electric Utility	59,556
Water Utility	13,385
Sewer Utility	24,500
Television Utility	42,650

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE J - LONG TERM DEBT

NORWAY BUILDING AUTHORITY

The Norway Building Authority originally issued \$850,000 of revenue bonds during 1993 for the construction of a new golf clubhouse. The bonds are a primary obligation of the Norway Building Authority with the City being secondarily liable. Payment of the bonds on September 1, 1993 and runs to September 1, 2014, with an interest rate varying from 5.75% to 8%.

The bonds were refinanced in September, 2003 in the amount of \$615,000 plus a three percent premium of \$18,450. Semi-annual payments of \$36,625 are due March 1 and September 1 through 2014.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	46,938	26,311	73,249
2005-2006	49,021	24,228	73,249
2006-2007	51,196	22,053	73,249
2007-2008	53,468	19,781	73,249
2008-2009	55,842	14,407	73,249
2009-ON	<u>354,496</u>	<u>48,375</u>	<u>402,871</u>
TOTALS	\$ 610,961	\$ 158,155	\$ 769,116

DOWNTOWN DEVELOPMENT AUTHORITY

The Downtown Development Authority originally issued \$400,000 of revenue bonds for the development of the downtown area. Payment of the bonds begin in 1996 and run to 2005, with interest rates varying from 6.4% to 7.4%.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	70,000	7,105	77,105
2005-2006	<u>70,000</u>	<u>2,380</u>	<u>72,380</u>
TOTALS	\$ 140,000	\$ 9,485	\$ 149,485

DOWNTOWN DEVELOPMENT AUTHORITY

The Downtown Development Authority issued \$995,000 of general obligation limited tax development bonds on April 1, 2001, for the development of the downtown area. Payment of the bonds begin in 2001 and run to 2023, with interest rates varying from 4.5% to 5.3%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE J - LONG TERM DEBT

DOWNTOWN DEVELOPMENT AUTHORITY (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	15,000	49,500	64,500
2005-2006	15,000	48,825	63,825
2006-2007	25,000	48,150	73,150
2007-2008	30,000	47,025	77,025
2008-2009	35,000	45,675	80,675
2009-ON	<u>860,000</u>	<u>373,168</u>	<u>1,233,168</u>
TOTALS	\$ 980,000	\$ 612,343	\$ 1,592,343

FIRE HALL BONDS

The Norway Building Authority issued \$680,000 of bonds which were sold entirely to the Rural Development on May 17, 2001. The proceeds are being used to construct a replacement fire hall to service the City of Norway and carry an interest rate of 4.75%.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City on any interest payment date at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	14,000	30,210	44,210
2005-2006	15,000	29,521	44,521
2006-2007	16,000	28,785	44,785
2007-2008	17,000	28,001	45,001
2008-2009	18,000	27,170	45,170
2009-ON	<u>563,000</u>	<u>279,751</u>	<u>842,751</u>
TOTALS	\$ 643,000	\$ 422,821	\$ 1,065,821

CITY HALL BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2001 for the demolition, equipping and replacement of the City Hall. Payment of the bonds begin in 2002 and run to 2021, with interest rates varying from 4.5% to 5.2%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE J - LONG TERM DEBT (CONTINUED)

CITY HALL BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	35,000	45,915	80,915
2005-2006	35,000	44,340	79,340
2006-2007	35,000	42,765	77,765
2007-2008	40,000	41,190	81,190
2008-2009	40,000	39,390	79,390
2009-ON	<u>735,000</u>	<u>275,175</u>	<u>1,010,175</u>
TOTALS	\$ 920,000	\$ 488,775	\$1,408,775

NOTE K - PROPRIETARY FUND LONG TERM DEBT

NORWAY UTILITIES AUTHORITY

The Norway Utilities Authority originally issued \$1,010,000 of bonds which were sold entirely to the Farmers Home Administration (now Rural Development). The proceeds were used to improve, enlarge and extend a sewer disposal system to service the City of Norway and Township of Norway, each constituent members of the Authority. The bonds, dated June 6, 1978, carry an interest rate of 5.0%.

Bonds maturing in the years 1989 to 2018, inclusive, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any interest payment date on or after August 1, 1988, at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	15,000	17,000	32,000
2005-2006	20,000	16,250	36,250
2006-2007	20,000	15,250	35,250
2007-2008	20,000	14,250	34,250
2008-2009	20,000	13,250	33,250
2009-ON	<u>245,000</u>	<u>65,750</u>	<u>310,750</u>
TOTALS	\$ 340,000	\$ 141,750	\$ 481,750

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC UTILITY SYSTEM REVENUE BONDS

In 1982-1983, the City undertook a major construction project which included improvements to their existing electrical utility system. Specifically, this project included the purchase and installation of two 900 kilowatt generating units, transmission lines and auxiliary equipment and the construction of certain concrete structural improvements to the existing hydroelectric facility with an estimated cost of \$2,500,000.

The City initially borrowed \$ 2,290,000 from the Farmers Home Administration, an agency of the United States Government. The bonds were refinanced in 1987 and again in 1994.

The 1994 refinancing was a defeasance with the 1987 bonds being called in 1999. The bonds carry interest rates varying from 3.1% to 5.375%. The bonds are subject to redemption prior to maturity, in inverse order, at the City's option on any interest payment date, at par plus accrued interest to the date fixed for redemption.

The repayment schedule, including interest, will be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	140,000	73,369	213,369
2005-2006	150,000	65,844	215,844
2006-2007	155,000	57,781	212,781
2007-2008	165,000	49,450	214,450
2008-2009	175,000	40,581	215,581
2009-ON	<u>580,000</u>	<u>63,425</u>	<u>643,425</u>
TOTALS	\$1,365,000	\$ 350,450	\$ 1,715,450

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS

The City issued \$995,000 of limited revenue bonds on June 3, 2002, for the updating of the power dam and automation of the plant. Payment of the bonds begin in 2002 and run to 2017, with interest rates varying from 4.3% to 5.15%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	35,000	44,928	79,928
2005-2006	35,000	43,423	78,423
2006-2007	40,000	41,918	81,918
2007-2008	40,000	40,198	80,198
2008-2009	45,000	38,478	83,478
2009-ON	<u>745,000</u>	<u>194,248</u>	<u>939,248</u>
TOTALS	\$ 940,000	\$ 403,190	\$1,343,190

WATER UTILITY SYSTEM REVENUE BONDS

In 1987, the City issued revenue bonds in the amount of \$750,000 for the construction of improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon. During the 1998-1999 year, the bonds were refinanced through the Michigan Municipal Finance Authority. This refinancing reduced the interest to an effective interest rate of 5.012%.

The revised repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	25,000	32,030	57,030
2005-2006	25,000	30,648	55,648
2006-2007	25,000	29,320	54,320
2007-2008	30,000	27,335	57,335
2008-2009	30,000	20,933	50,933
2009-ON	<u>395,000</u>	<u>77,564</u>	<u>472,564</u>
TOTALS	\$ 530,000	\$ 217,830	\$ 747,830

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

WATER UTILITY SYSTEM REVENUE BONDS

In 1997, the City authorized issuance of revenue bonds in the amount of \$3,172,000 for the purpose of making improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund and the entire amount was purchased by Rural Development, an agency of the United States Government. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon.

The repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-2005	40,000	131,130	171,130
2005-2006	42,000	129,285	171,285
2006-2007	44,000	127,350	171,350
2007-2008	46,000	125,325	171,325
2008-2009	48,000	123,210	171,210
2009-ON	<u>2,714,000</u>	<u>2,051,865</u>	<u>4,765,865</u>
TOTALS	\$2,934,000	\$2,688,165	\$5,622,165

NOTE L - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables as of June 30, 2004 follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Television Fund	\$ 29,652
General Fund	Electric Fund	193,368
General Fund	Golf Fund	25,308
General Fund	Sewer Fund	119,929
General Fund	Tax Fund	167

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE M - RISK MANAGEMENT

The City of Norway is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Norway maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE N - RECLASSIFICATION

Certain reclassifications have been made in the 2003 comparative totals to conform to classifications used in 2004.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 891,432	\$ 891,432	\$ 891,432	\$ 0
Resources (Inflows)				
Property taxes	591,931	594,515	593,799	(716)
State shared revenues and grants	356,836	330,957	331,609	652
Licenses and permits	0	0	267	267
Fines and forfeitures	7,000	7,000	6,604	(396)
Charges for services	419,412	359,413	388,876	29,463
Interest and rentals	35,000	17,500	21,892	4,392
Other	65,144	62,491	4,541	(57,950)
Transfer from other funds	649,329	501,044	333,044	(168,000)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 3,016,084	\$ 2,764,352	\$ 2,572,064	\$ (192,288)
Charges to Appropriations (Outflows)				
General Government				
Mayor/Council/Elections	\$ 47,000	\$ 50,789	\$ 55,815	\$ (5,026)
Administration/Finance/Legal	502,149	510,872	493,361	17,511
Buildings and grounds	22,000	20,399	20,566	(167)
Public Safety				
Police	533,953	544,194	509,145	35,049
Fire	104,207	107,974	104,024	3,950
Public Works				
Maintenance	340,530	294,761	266,782	27,979
Refuse	354,155	215,162	217,484	(2,322)
Parks and Recreation	18,146	17,649	23,756	(6,107)
Transfers to other funds	123,391	123,391	123,391	0
TOTAL CHARGES TO APPROPRIATIONS	\$ 2,045,531	\$ 1,885,191	\$ 1,814,324	\$ 70,867
BUDGETARY FUND BALANCE--ENDING	\$ 970,553	\$ 879,161	\$ 757,740	\$ (121,421)

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 356,025	\$ 356,025	\$ 356,025	\$ 0
Resources (Inflows)				
Federal grants	243,750	243,750	243,750	0
State shared revenues and grants	230,000	215,000	236,196	21,196
Interest earned	5,000	2,000	1,528	(472)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>148,119</u>	<u>148,119</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 834,775	\$ 816,775	\$ 985,618	\$ 168,843
Charges to Appropriations (Outflows)				
Construction	\$ 800,805	\$ 830,857	\$ 794,410	\$ 36,447
Route maintenance	38,898	45,398	50,843	(5,445)
Traffic services	6,227	6,227	2,957	3,270
Winter maintenance	55,898	68,900	79,698	(10,798)
Administration	9,045	10,024	10,024	0
Trunkline maintenance	<u>8,090</u>	<u>9,315</u>	<u>6,564</u>	<u>2,751</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>918,963</u>	\$ <u>970,721</u>	\$ <u>944,496</u>	\$ <u>26,225</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>(84,188)</u></u>	\$ <u><u>(153,946)</u></u>	\$ <u><u>41,122</u></u>	\$ <u><u>195,068</u></u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN DEVELOPMENT AUTHORITY
Year ended June 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 255,513	\$ 255,513	\$ 255,513	\$ 0
Resources (Inflows)				
Property taxes	178,910	181,330	177,057	(4,273)
Interest earned	5,000	3,200	3,093	(107)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 439,423	\$ 440,043	\$ 435,663	\$ (4,380)
Charges to Appropriations (Outflows)				
Supplies and other	\$ 0	\$ 1,960	\$ 2,939	\$ (979)
Debt service	126,880	126,880	126,531	349
Bond discount amortization	1,250	1,250	1,249	1
Transfers to other funds	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>173,130</u>	\$ <u>175,090</u>	\$ <u>175,719</u>	\$ <u>(629)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>266,293</u></u>	\$ <u><u>264,953</u></u>	\$ <u><u>259,944</u></u>	\$ <u><u>(5,009)</u></u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 447,219	\$ 447,219	\$ 447,219	\$ 0
Resources (Inflows)				
State grants	378,125	0	0	
Sale of property	50,000	134,275	134,275	0
Contributions	2,500	19,465	19,254	(211)
Interest earned	10,000	14,250	9,862	(4,388)
Transfers from other funds	<u>70,000</u>	<u>8,750</u>	<u>8,750</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 957,844	\$ 623,959	\$ 619,360	\$ (4,599)
Charges to Appropriations (Outflows)				
Capital projects	\$ 964,810	\$ 41,500	\$ 34,503	\$ 6,997
Transfers to other funds	<u>0</u>	<u>15,000</u>	<u>184,750</u>	<u>(169,750)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>964,810</u>	\$ <u>56,500</u>	\$ <u>219,253</u>	\$ <u>(162,753)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u>(6,966)</u>	\$ <u>567,459</u>	\$ <u>400,107</u>	\$ <u>(167,352)</u>

CITY OF NORWAY
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2004

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-01	7,153,530	9,926,402	2,772,872	72%	1,319,765	210%
31-Dec-02	7,107,083	10,567,655	3,460,572	67%	1,401,228	247%
31-Dec-03	7,381,418	11,197,388	3,815,970	66%	1,388,852	275%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-01	201,918	100%
31-Dec-02	230,804	100%
31-Dec-03	280,326	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL
INFORMATION

CITY OF NORWAY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004

	<u>LOCAL STREET</u>	<u>MUSEUM</u>
ASSETS		
Cash and equivalents	\$ 136,492	\$ 14,569
Investments	0	41,553
Accounts receivable	1,208	0
Due from other funds	16,042	0
Due from other governmental units	0	0
Other assets	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>153,742</u>	\$ <u>56,122</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	\$ 3,013	\$ 3,392
Salaries and wages payable	1,892	553
Accrued taxes and withholdings	146	42
Accrued interest	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 5,051	\$ 3,987
FUND EQUITY		
Fund balance:		
Unreserved-undesignated	\$ <u>148,691</u>	\$ <u>52,135</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>153,742</u>	\$ <u>56,122</u>

	DEBT SERVICE		TOTAL
\$	0	\$	151,061
	0		41,553
	0		1,208
	0		16,042
	0		0
	0		0
\$	0	\$	209,864

\$	0	\$	6,405
	0		2,445
	0		188
	0		0

\$	0	\$	9,038
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\$	0	\$	200,826
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\$	0	\$	209,864
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CITY OF NORWAY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
Year ended June 30, 2004

	<u>LOCAL STREET</u>	<u>MUSEUM</u>
REVENUES		
State shared revenues	\$ 98,798	\$ 0
Property taxes	0	0
Local grant	0	470
Interest earned	1,224	430
Contributions	0	39,867
Other	0	0
	<hr/>	<hr/>
TOTAL REVENUES	\$ 100,022	\$ 40,767
EXPENDITURES		
Construction	\$ 43,262	\$ 0
Maintenance	53,289	0
Traffic service maintenance	4,316	0
Winter maintenance	44,140	0
Administration and engineering	9,054	8,325
Debt service	0	0
Capital outlay	0	21,649
	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 154,061	\$ 29,974
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		
	\$ (54,039)	\$ 10,793
OTHER FINANCING SOURCES (USES)		
Transfer from other funds	\$ 21,631	\$ 17,000
Transfer to other funds	0	0
	<hr/>	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES		
	\$ (32,408)	\$ 27,793
Fund balance - beginning	<hr/> 181,099	<hr/> 24,342
FUND BALANCE - ENDING	<hr/> <u>\$ 148,691</u>	<hr/> <u>\$ 52,135</u>

	DEBT SERVICE	TOTAL
\$	0	\$ 98,798
	0	0
	0	470
	0	1,654
	87,437	127,304
	<u>0</u>	<u>0</u>
\$	87,437	\$ 228,226
\$	0	\$ 43,262
	0	53,289
	0	4,316
	0	44,140
	0	17,379
	208,828	208,828
	<u>0</u>	<u>21,649</u>
\$	<u>208,828</u>	\$ <u>392,863</u>
\$	(121,391)	\$ (164,637)
\$	121,391	\$ 160,022
	<u>0</u>	<u>0</u>
\$	0	\$ (4,615)
	<u>0</u>	<u>205,441</u>
\$	<u>0</u>	\$ <u>200,826</u>

CITY OF NORWAY
ELECTRIC UTILITY FUND
BALANCE SHEET
June 30, 2004 and 2003

		<u>2004</u>	<u>2003</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$	0	\$ 170,234
Accounts receivable		218,672	167,893
Inventory		61,741	0
Prepaid expenses		<u>15,169</u>	<u>15,305</u>
TOTAL CURRENT ASSETS	\$	295,582	\$ 353,432
Restricted Assets:			
Bond reserve account	\$	230,500	\$ 0
Equipment replacement		<u>0</u>	<u>0</u>
TOTAL RESTRICTED ASSETS	\$	230,500	\$ 0
Property, Plant and Equipment:			
Electric system	\$	11,310,117	\$ 10,791,720
Less accumulated depreciation		<u>(4,737,862)</u>	<u>(4,434,168)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$	6,572,255	\$ 6,357,552
Other Asset - Bond discount	\$	<u>180,389</u>	<u>202,305</u>
TOTAL ASSETS	\$	<u><u>7,278,726</u></u>	<u><u>6,913,289</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$	30,837	\$ 87,613
Salaries and wages payable		20,569	18,211
Accrued taxes and withholdings		3,271	1,393
Accrued benefits		59,556	74,345
Sales tax payable		5,837	4,148
Due to other funds		193,368	0
Customer deposits		38,674	39,843
Accrued interest		34,314	37,094
Current portion of long term debt		<u>175,000</u>	<u>165,000</u>
TOTAL CURRENT LIABILITIES	\$	561,426	\$ 427,647
Long Term Debt - Revenue bonds payable		<u>2,130,000</u>	<u>2,305,000</u>
TOTAL LIABILITIES	\$	2,691,426	\$ 2,732,647
FUND EQUITY			
Retained earnings:			
Reserved	\$	230,500	\$ 0
Unreserved		<u>4,356,800</u>	<u>4,180,642</u>
TOTAL FUND EQUITY	\$	<u>4,587,300</u>	\$ 4,180,642
TOTAL LIABILITIES AND FUND EQUITY	\$	<u><u>7,278,726</u></u>	<u><u>6,913,289</u></u>

CITY OF NORWAY
 ELECTRIC UTILITY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 ACTUAL AND BUDGET
 Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
User charges	\$ 2,136,423	\$ 1,898,896
Reimbursements	<u>143,401</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 2,279,824	\$ 1,898,896
OPERATING EXPENSES		
Generation, distribution and maintenance	\$ 1,322,869	\$ 1,335,820
Depreciation	<u>303,694</u>	<u>279,494</u>
TOTAL OPERATING EXPENSES	\$ <u>1,626,563</u>	\$ <u>1,615,314</u>
OPERATING INCOME	\$ 653,261	\$ 283,582
NON-OPERATING GAINS (LOSSES)		
Interest income	\$ 2,392	\$ 12,918
Bond interest payments	(123,219)	(130,510)
Bond discount amortization	(21,918)	(21,916)
Transfer from other funds	0	261,378
Transfer to other funds	<u>(103,858)</u>	<u>(221,591)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(246,603)</u>	\$ <u>(99,721)</u>
NET INCOME	\$ 406,658	\$ 183,861
Retained earnings - beginning	<u>4,180,642</u>	<u>3,996,781</u>
RETAINED EARNINGS - ENDING	\$ <u><u>4,587,300</u></u>	\$ <u><u>4,180,642</u></u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
ELECTRIC UTILITY FUND
Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,085,644	\$ 2,020,430
Insurance proceeds	143,401	0
Payments to suppliers	(717,391)	(477,549)
Payments to or on behalf of employees	<u>(736,672)</u>	<u>(764,945)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 774,982	\$ 777,936
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	\$ (103,858)	\$ 39,787
Loans from other funds	<u>193,368</u>	<u>0</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ 89,510	\$ 39,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (288,219)	\$ (285,510)
Purchases of capital assets	(518,399)	(1,541,793)
Funding of restricted accounts	<u>(230,500)</u>	<u>1,206,757</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (1,037,118)	\$ (620,546)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>2,392</u>	<u>12,918</u>
NET INCREASE (DECREASE) IN CASH	\$ (170,234)	\$ 210,095
Cash and equivalents - beginning	<u>170,234</u>	<u>(39,861)</u>
CASH AND EQUIVALENTS - ENDING	<u><u>0</u></u>	<u><u>170,234</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 653,261	\$ 283,582
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	303,694	279,494
Change in Assets and Liabilities		
Receivables - net	(50,779)	121,534
Inventory	(61,741)	0
Prepaid expenses	136	(15,305)
Accounts payable	(56,776)	64,449
Accrued payroll expense	2,358	422
Accrued taxes and withholdings	1,878	33
Accrued sales tax	1,689	(298)
Accrued benefits	(14,789)	47,512
Accrued interest	(2,780)	(6,549)
Customer deposits	<u>(1,169)</u>	<u>3,062</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>774,982</u></u>	<u><u>777,936</u></u>

CITY OF NORWAY
ELECTRIC UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Generation, Distribution & Maintenance:		
Salaries and wages	\$ 460,107	\$ 531,590
Employee benefits	280,801	233,810
Supplies and other	<u>581,961</u>	<u>570,420</u>
TOTAL GENERATION, DISTRIBUTION AND MAINTENANCE	\$ 1,322,869	\$ 1,335,820
Depreciation	<u>303,694</u>	<u>279,494</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,626,563</u>	<u>\$ 1,615,314</u>

CITY OF NORWAY
WATER UTILITY FUND
BALANCE SHEET
June 30, 2004 and 2003

		2004	2003
ASSETS			
Current Assets:			
Cash and equivalents	\$	4,517	\$ 85,812
Accounts receivable		59,861	58,579
Inventory		28,773	0
Prepaid expenses		3,727	2,715
		<u>96,878</u>	<u>147,106</u>
TOTAL CURRENT ASSETS	\$	96,878	\$ 147,106
Restricted Assets:			
Revenue bond and interest redemption	\$	43,336	\$ 25,336
Water supply replacement fund		107,675	107,675
Water supply improvement fund		107,557	107,557
Bond reserve - junior indenture		121,100	103,800
		<u>379,668</u>	<u>344,368</u>
TOTAL RESTRICTED ASSETS	\$	379,668	\$ 344,368
Property, Plant and Equipment:			
Water system	\$	6,014,498	\$ 5,990,916
Less accumulated depreciation		(1,650,402)	(1,502,995)
		<u>4,364,096</u>	<u>4,487,921</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$	4,364,096	\$ 4,487,921
Other Asset - Bond discount	\$	4,448	\$ 4,790
		<u>4,448</u>	<u>4,790</u>
TOTAL ASSETS	\$	4,845,090	\$ 4,984,185
LIABILITIES			
Current Liabilities:			
Accounts payable	\$	2,935	\$ 43,762
Salaries and wages payable		5,725	5,448
Accrued taxes and withholdings		441	419
Accrued benefits		13,385	22,835
Accrued interest		28,294	28,778
Current portion of long term debt		67,000	65,000
		<u>117,780</u>	<u>166,242</u>
TOTAL CURRENT LIABILITIES	\$	117,780	\$ 166,242
Long Term Debt - Revenue bonds payable		3,397,000	3,458,000
		<u>3,397,000</u>	<u>3,458,000</u>
TOTAL LIABILITIES	\$	3,514,780	\$ 3,624,242
FUND EQUITY			
Contributed capital:			
Municipality	\$	59,520	\$ 59,520
Federal government		162,251	172,457
Customers		4,446	4,446
		<u>226,217</u>	<u>236,423</u>
TOTAL CONTRIBUTED CAPITAL	\$	226,217	\$ 236,423
Retained earnings:			
Reserved	\$	379,668	\$ 344,368
Unreserved		724,425	779,152
		<u>1,104,093</u>	<u>1,123,520</u>
TOTAL RETAINED EARNINGS	\$	1,104,093	\$ 1,123,520
TOTAL FUND EQUITY	\$	1,330,310	\$ 1,359,943
TOTAL LIABILITIES AND FUND EQUITY	\$	4,845,090	\$ 4,984,185

CITY OF NORWAY
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
User charges	\$ 598,206	\$ 515,459
Hydrant rentals	<u>33,000</u>	<u>33,000</u>
TOTAL OPERATING REVENUES	\$ 631,206	\$ 548,459
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 258,484	\$ 344,112
Depreciation	<u>137,201</u>	<u>145,239</u>
TOTAL OPERATING EXPENSES	\$ <u>395,685</u>	\$ <u>489,351</u>
OPERATING INCOME	\$ 235,521	\$ 59,108
NON-OPERATING GAINS (LOSSES)		
Interest	\$ 2,775	\$ 8,360
Bond interest payments	(165,732)	(168,600)
Bond discount amortization	(342)	(342)
Transfer from other funds	20,000	0
Transfer to other funds	<u>(111,649)</u>	<u>(120,631)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(254,948)</u>	\$ <u>(281,213)</u>
NET INCOME	\$ (19,427)	\$ (222,105)
Retained earnings - beginning	<u>1,123,520</u>	<u>1,345,625</u>
RETAINED EARNINGS - ENDING	\$ <u><u>1,104,093</u></u>	\$ <u><u>1,123,520</u></u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
WATER UTILITY FUND
Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 629,924	\$ 542,434
Payments to suppliers	(170,817)	(60,032)
Payments to or on behalf of employees	<u>(167,914)</u>	<u>(237,157)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 291,193	\$ 245,245
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other funds	\$ (91,649)	\$ (120,631)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (224,732)	\$ (225,600)
Purchases of capital assets	(23,582)	(69,411)
Funding of restricted accounts	<u>(35,300)</u>	<u>(17,300)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (283,614)	\$ (312,311)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>2,775</u>	\$ <u>8,360</u>
NET INCREASE (DECREASE) IN CASH	\$ (81,295)	\$ (179,337)
Cash and equivalents - beginning	<u>85,812</u>	<u>265,149</u>
CASH AND EQUIVALENTS - ENDING	<u>\$ 4,517</u>	<u>\$ 85,812</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 235,521	\$ 59,108
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	137,201	145,239
Change in Assets and Liabilities		
Receivables - net	(1,282)	(6,025)
Inventory	(28,773)	0
Prepaid expenses	(1,012)	(2,715)
Accounts payable	(40,827)	41,997
Accrued payroll expense	277	(1,539)
Accrued taxes and withholdings	22	(21)
Accrued benefits	(9,450)	9,666
Accrued interest	<u>(484)</u>	<u>(465)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 291,193</u>	<u>\$ 245,245</u>

CITY OF NORWAY
WATER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 100,863	\$ 160,394
Employee benefits	67,350	75,203
Supplies and other	<u>90,271</u>	<u>108,515</u>
 TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	 \$ 258,484	 \$ 344,112
Depreciation	<u>137,201</u>	<u>145,239</u>
 TOTAL OPERATING EXPENSES	 \$ <u><u>395,685</u></u>	 \$ <u><u>489,351</u></u>

CITY OF NORWAY
SEWER UTILITY FUND
BALANCE SHEET
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable	46,021	54,592
Inventory	5,605	0
Prepaid expenses	<u>3,930</u>	<u>2,974</u>
TOTAL CURRENT ASSETS	\$ 55,556	\$ 57,566
Restricted Assets - bond reserve account	\$ 15,735	\$ 15,735
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 2,017,306	\$ 1,965,455
Less accumulated depreciation	<u>(755,355)</u>	<u>(692,752)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 1,261,951	\$ 1,272,703
TOTAL ASSETS	\$ <u>1,333,242</u>	\$ <u>1,346,004</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 8,307	\$ 7,369
Salaries and wages payable	7,557	5,115
Accrued taxes and withholdings	578	391
Due to other funds	119,929	153,672
Accrued benefits	24,499	21,087
Current portion of long term debt	<u>12,280</u>	<u>9,210</u>
TOTAL CURRENT LIABILITIES	\$ 173,150	\$ 196,844
Long Term Debt - Revenue bonds payable	\$ <u>196,480</u>	\$ <u>208,760</u>
TOTAL LIABILITIES	\$ 369,630	\$ 405,604
FUND EQUITY		
Contributed capital		
Municipality	\$ 78,000	\$ 78,000
Federal government	<u>268,153</u>	<u>297,767</u>
TOTAL CONTRIBUTED CAPITAL	\$ 346,153	\$ 375,767
Retained earnings:		
Reserved	\$ 15,735	\$ 15,735
Unrestricted, undesignated	<u>601,724</u>	<u>548,898</u>
TOTAL RETAINED EARNINGS	\$ 617,459	\$ 564,633
TOTAL FUND EQUITY	\$ <u>963,612</u>	\$ <u>940,400</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>1,333,242</u>	\$ <u>1,346,004</u>

CITY OF NORWAY
SEWER UTILITY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 ACTUAL AND BUDGET
 Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
User charges	\$ 500,193	\$ 518,718
Reimbursement	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 500,193	\$ 518,718
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 349,644	\$ 356,588
Depreciation	<u>32,989</u>	<u>23,079</u>
TOTAL OPERATING EXPENSES	\$ 382,633	\$ 379,667
OPERATING INCOME	\$ 117,560	\$ 139,051
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$ 0	\$ 111
Bond interest and fee payments	(11,129)	(11,589)
Transfers from other funds	0	20,000
Transfers (to) other funds	<u>(53,605)</u>	<u>(104,346)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ (64,734)	\$ (95,824)
NET INCOME	\$ 52,826	\$ 43,227
Retained earnings - beginning	<u>564,633</u>	<u>521,406</u>
RETAINED EARNINGS - ENDING	<u>\$ 617,459</u>	<u>\$ 564,633</u>

CITY OF NORWAY
STATEMENT OF CASH FLOWS
SEWER UTILITY FUND
Year ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 508,764	\$ 520,475
Payments to suppliers	(149,112)	(150,810)
Payments to or on behalf of employees	(200,114)	(212,687)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 159,538	\$ 156,978
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer (to) other funds	\$ (53,605)	\$ (84,346)
Loans received from (repaid to) other funds	(33,743)	153,672
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (87,348)	\$ 69,326
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal, interest and fees paid on capital debt	\$ (20,339)	\$ (20,799)
Purchases of capital assets	(51,851)	(251,069)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (72,190)	\$ (271,868)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ 0	\$ 111
NET INCREASE (DECREASE) IN CASH	\$ 0	\$ (45,453)
Cash and equivalents - beginning	0	45,453
CASH AND EQUIVALENTS - ENDING	\$ 0	\$ 0
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 117,560	\$ 139,051
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	32,989	23,079
Change in Assets and Liabilities		
Receivables - net	8,571	1,757
Inventory	(5,605)	0
Prepaid expenses	(956)	(2,974)
Accounts payable	938	(11,748)
Accrued payroll expense	2,442	482
Accrued taxes and withholdings	187	36
Accrued benefits	3,412	7,295
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 159,538	\$ 156,978

CITY OF NORWAY
SEWER UTILITY FUND
 SCHEDULE OF OPERATING EXPENSES
 Year ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 134,320	\$ 142,322
Employee benefits	68,423	70,883
Supplies and other	<u>146,901</u>	<u>143,383</u>
TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	\$ 349,644	\$ 356,588
Depreciation	<u>32,989</u>	<u>23,079</u>
TOTALS	\$ <u><u>382,633</u></u>	\$ <u><u>379,667</u></u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 181,099	\$ 181,099	\$ 181,099	\$ 0
Resources (Inflows)				
State shared revenues and grants	99,500	95,000	98,798	3,798
Interest earned	4,000	1,500	1,224	(276)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>21,631</u>	<u>21,631</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 284,599	\$ 277,599	\$ 302,752	\$ 25,153
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 43,262	\$ (43,262)
Route maintenance	28,265	45,660	53,289	(7,629)
Traffic services	2,827	6,105	4,316	1,789
Winter maintenance	36,765	42,295	44,140	(1,845)
Administration	<u>9,045</u>	<u>12,439</u>	<u>9,054</u>	<u>3,385</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>76,902</u>	\$ <u>106,499</u>	\$ <u>154,061</u>	\$ <u>(47,562)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>207,697</u></u>	\$ <u><u>171,100</u></u>	\$ <u><u>148,691</u></u>	\$ <u><u>(22,409)</u></u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MUSEUM FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 24,342	\$ 24,342	\$ 24,342	\$ 0
Resources (Inflows)				
Local grant	2,000	470	470	
Sale of property	200	0	0	0
Contributions	22,625	39,867	39,867	0
Interest earned	300	400	430	30
Transfers from other funds	<u>2,000</u>	<u>17,000</u>	<u>17,000</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 51,467	\$ 82,079	\$ 82,109	\$ 30
Charges to Appropriations (Outflows)				
Administration	\$ 7,125	\$ 8,181	\$ 8,325	\$ (144)
Capital projects	<u>40,000</u>	<u>25,000</u>	<u>21,649</u>	<u>3,351</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>47,125</u>	\$ <u>33,181</u>	\$ <u>29,974</u>	\$ <u>3,207</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>4,342</u></u>	\$ <u><u>48,898</u></u>	\$ <u><u>52,135</u></u>	\$ <u><u>3,237</u></u>

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	0
Resources (Inflows)				
Contribution from Oak Crest Golf Club, Inc.	70,710	87,437	87,437	0
Transfers from other funds	<u>121,391</u>	<u>121,391</u>	<u>121,391</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 192,101	\$ 208,828	\$ 208,828	0
Charges to Appropriations (Outflows)				
Debt service	\$ <u>192,101</u>	\$ <u>208,828</u>	\$ <u>208,828</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>192,101</u>	\$ <u>208,828</u>	\$ <u>208,828</u>	<u>0</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	<u><u>0</u></u>

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) as of and for the year ended June 30, 2004, which collectively comprise the City of Norway, Michigan's basic financial statements and have issued my report thereon dated October 21, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted one matter involving the internal control over financial reporting and its operation that I consider to be a material weakness. The receipts/revenue system utilized at the Oak Crest Golf Course does not provide assurance that all monies received are eventually passed to the City Treasurer for deposit. Additionally, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated October 21, 2004.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

October 21, 2004

SCOTT R. KENNEY

Certified Public Accountant

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(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

In conjunction with the audit of the general purpose financial statements of the City of Norway as of and for the year ended June 30, 2004, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Norway's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof.

1. **OBSERVATION** - The City has not adopted a capitalization policy for equipment and/or capital projects. This policy would assist management in properly classifying expenditures into the correct accounts.

RECOMMENDATION - I strongly recommend that the City adopt a formal capitalization policy capitalizing fixed assets with an expected useful life of more than one year and a cost of \$1,000 or more. This policy then needs to be forwarded to department heads for their implementation. In addition, budgets should be reviewed and amended as required utilizing the newly implemented policy.

2. **OBSERVATION** - The City has consumed a large portion of its cash through some aggressive spending on needed capital projects over the past several years. Some of these were completed using debt financing. In addition, the City is expending substantially more to purchase power during peak times.

RECOMMENDATION - The City needs to closely evaluate any equipment needs or capital projects considering not only the long term benefit to the City but the short term cash needs as well. This may require a delay in purchasing equipment or in beginning a capital project while various City needs are prioritized.

3. **OBSERVATION** - The Golf Course income is transported to the City periodically (usually daily) for deposit with other City funds. A hand prepared description of the source of the funds is included with the money. No assurance as to the amount or source of the funds is included.

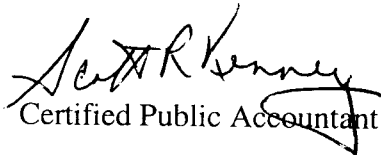
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RECOMMENDATION - I recommend that the cash register tape or a copy of it be included with the money brought to the City. This will allow for the comparison of the amount and source of the funds so they can be properly recorded in the financial records.

This recommendation was implemented after the fiscal year end.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Ray, Mary, the office staff and the department heads for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

October 21, 2004